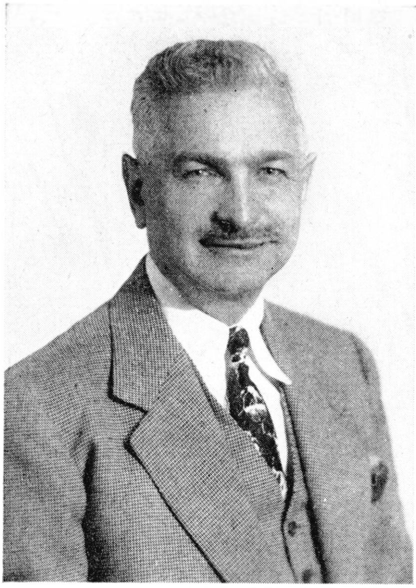
Hotel Accounting and Food Control

John N. Horwath



John N. Horwath is a member of the firm of Horwath & Horwath, accountants, auditors and specialists in hotel, restaurant and club management. His firm has rendered service to the above field for the past thirty-two years, and he has been with that firm for twenty-seven years.

Mr. Horwath is a certified public accountant of the State of Illinois and a member of the American Institute of Accountants.

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HOTEL ACCOUNTING AND FOOD CONTROL

By JOHN N. HORWATH, C.P.A.

In planning this discussion, I thought that the best way to make it of interest to you would be to outline some of the differences between accounting for hotels and accounting for other industries.

The ninth largest industry in the United States, hotels, started only about 30 years ago to become bona fide business enterprises based on scientific management and up-to-date methods of control. So important was accounting in the growth of this industry that many hotels attribute their survival during the last depression in large measure to the records which enabled management to take precautionary steps against unexpected losses. An accountant today who specializes in hotels not only segregates and then joins again into a life-size picture each day's income and expense; he goes much further. He puts the picture to work by constantly pointing out to management the operational changes needed to keep the colors right—black predominating, marred by as little red as possible. Concretely, the accountant does this by suggesting when and how room rates or menus should be altered, when and how personnel should be increased or decreased, when and how economies can be effected, and also how to eliminate the waste and loss that spring from inadequate control.

Large credit for the progress made in hotel accounting during the past two decades is due the Hotel Association of New York City, which in 1926 sponsored the establishment, by a group of professional accountants, of a Uniform System of Accounts for Hotels. Ever since then this system, delineated in a book published by the Association, has been accepted as the standard for classifying a hotel's income and expense. In addition to providing the hotel industry with account designations worked out especially to fit its peculiarities, the uniform system enables hotels to compare their operating data easily and accurately, and on this basis to establish standard operating statistics.

Hotel accounting in its entirety differs from the accounting in most other businesses in that its most important function is the internal control of income and accounts receivable. The reason for this difference may be something that has occurred to all of you at odd moments when you were in hotels. More than once perhaps it has flashed through your minds that there are few other industries in which the amount involved in each individual transaction is so small, with the transactions of each customer so rapid and varied. In a store, of course, there may be a procession of small, quick and varied purchases throughout each day, but there are these differences: first, the service rendered is of one kind only—the selling of tangible merchandise; second, the customer pays cash unless he has established credit for systematic billing at a given time in the future. In contrast, let's look for a moment at the procedure in a hotel. A guest arrives, he hires a room, has his baggage delivered, uses the telephone and valet service, has his meal in his room or in the dining room, sends a telegram, all, frequently, within the space of little more than an hour. And during that time, the charge for each service must reach the bill clerk for posting to the guest's account, so that what he owes will be literally up to the minute at any time of the day or night, ready for his departure, the time of which is rarely known in advance. And, of course, once a guest has left, there is small chance of collecting any charge that was omitted or that was recorded in a smaller amount than it should have been. Nor is there too good a chance of having the guest remain a future patron if some one else's charges were erroneously put on his bill.

When experienced accountants like yourselves give thought to these factors, the importance of internal control becomes, of course, self-evident.

To effect such control, the hotel must first set up two separate kinds of receivable accounts, in order to control separately the amounts due from guests registered in the hotel, and the amounts due from non-registered patrons who have credit that permits them to charge items or services, such as luncheons, banquets, etc. The first-mentioned accounts—those of the registered guests—are kept in what is called "the guest ledger," while the others are recorded in the so-called "city ledger."

The whole system of internal control is based on laying out the detail of the work so that no part of the accounting procedure is under the absolute and independent control of any one person. In other words, the work of one employee is complementary to that of another, and a continuous audit is made of the business. In short, it is a system of checks and balances. The auditor reconciles daily against the total sales figure the total charges and total cash collected that day. The controlling sales figure for each department is derived from such sources as the record of total room sales, the total amount of food and beverages issued from the kitchen and bars and checked by machines or written upon checks, as well as various departmental reports of total sales.

The daily control of accounts receivable is effected by daily reconciliation of the total charges and total payments in the two receivable ledgers.

Regarding the recording of expenses in a hotel, this differs from factory accounting in that the expenditures generally known as "overhead" are not distributed. The reason for this is that management wishes to gauge the efficiency of the various department heads by examination of the results for which each of these individuals is directly responsible. Therefore the Uniform System of Accounts for Hotels has been designed so that only the direct payroll and expenses of a department are charged to that department, thus showing the departmental profit before any distribution of overhead.

Due to the great variance in size and types of hotels and in their range of services, it has been found that any attempt to distribute overhead tends to hide some items, and above all destroys inter-hotel comparisons. On the other hand, comparison of direct expense ratios has proved practicable.

At times, of course, to prove a point, supplementary statements may be made up in which overhead and fixed charges are distributed. This, however, is considered the exception rather than the rule.

In the profit and loss statement reproduced at the end of this article you will note that the overhead expenses—that is, administrative and general, advertising and sales promotion, heat, light and power, and repairs and maintenance—are grouped together under the caption "Deductions from Income."

The figure which remains after these deductions is called the "house profit," a term unique to hotel accounting and referring to the profit before fixed charges.

The house profit is the figure at which a manager is likely to look first, for it represents the results, good or bad, of his managerial efforts. The fixed charges which are then deducted are beyond his control. They are the responsibility of ownership.

In turning now to food-cost finding, we come to the most highly specialized phase of hotel accounting. The control of both food and beverage costs is included in the term "food cost accounting." In the textbook, "Hotel Accounting," written by Ernest Horwath and Louis Toth, it is accurately stated that the purpose of food cost accounting is to assist management in obtaining on food sales the highest possible gross profit consistent with the hotel's or restaurant's policy as to the quality of food and the size of portions to be served. The imperative need for this kind of accounting became apparent for the first time to many hotel owners during the days of prohibition. With bar profits suddenly a thing of the past, management began to be interested in finding ways of operating its food business at a profit instead of merely considering food a necessary but evil companion to the profitable bar sales.

Trial and error in developing a system of food-cost finding made it evident that it is necessary to analyze the sales of food as well as the cost, grouping both on the same basis. The principle evolved in finding the logical groups became the foundation on which today's food control is built. That principle is the use of the raw product as the unit for cost finding purposes, instead of the finished product as in factory cost accounting. Thus, for the purposes of control, the primary function of food cost accounting is not to reveal from day to day the exact costs of such finished products as a club sandwich or a planked steak, but rather to calculate what portions of the day's sales are applicable to each of such major raw material groups as beef, poultry, fish, etc.

While factory cost accounting finds the cost applicable to a certain selling price, food control finds the sales applicable to a certain cost. This is done by applying the selling price of a planked steak, for instance, to the main ingredients of which the order is made up—the potatoes and other vegetables served with the steak, as well as the short loin in the steak itself. Taking these principal ingredients as the units of control, it is only necessary to determine once the fair proportion of the selling price applicable to each, and divide the total sales of planked steak in that proportion. Following the same procedure with the sales of all dishes, the total returns for vegetables, different kinds of meats, etc., are arrived at.

The materials on the cost records are divided into so-called departments. These usually are the kitchen, the pantry, the pastry, ice cream and bake shops and dining room butter. Sales, of course, are broken down under the same classifications, and under each of these departments there are further divisions into groups.

Essential in food control is the daily calculating of costs. This is imperative because of the continuous fluctuations in food cost. Even with fairly constant sales, the difference in the menu from day to day, market variations, overproduction, waste or incorrect pricing of seasonable dishes, may cause the food cost to jump suddenly to an extent that means loss instead of profit. Only through the daily recording of costs can such dangerous fluctuations be detected promptly enough to apply remedies before costly harm is done.

The food control system which our firm developed and has found successful apprises management continuously of the weak points in its food and beverage operation. What we call "weak points" are such faults as overproduction, uneconomical buying, waste in cooking, loopholes for pilfering, unnecessary loss through spoilage, etc.

To maintain control that will eliminate all such faults requires daily distribution and analysis of the costs and sales of some fifty or sixty commodities that go into the meals served throughout one day. On the basis of this analysis, the cost ratios are computed daily and may be compared with previous results or with the cost ratios obtained in other similar hotels, in order to judge whether the current cost is high, low or just about right.

In addition to finding the daily, and then periodic, costs of sales, the food cost accountant is also responsible for developing a careful physical control on all foodstuffs as they are moved through the various phases of storage, production and service. The knowledge of exact quantities received and moved from stores to kitchen, and from kitchen to dining room, is essential to the establishment of the cost and sales figures on which the daily control is based.

Since repeal, in 1934, there has been a similar development of beverage control. In this operation, the raw material has such great value that the disposition of every ounce should be known to those in charge. To make this possible, there has been designed a control which indicates, in effect, the expected income from every ounce of liquid refreshment dispensed.

Indicative of the vast amount of analysis entailed in food cost accounting is the type of statistics that are assembled for the guidance of managemnet. These data include, for example, the total number of covers served per meal period, per waiter and/or per chair, the average check receipts per meal, the seat turnover by meal period, the receipts per seat per meal, the number of club combinations or complete meals as compared with the number of *a la carte* orders. Further details given are such facts as the number of rolls consumed per cover, the average consumption of butter per cover, the inventory turnover, and the relative number of portions sold of the different entrees offered on each menu. All of these facts are studied, on a daily basis and in monthly comparisons. The popular and successful dining room or restaurant is the one in which the habits and desires of the customers are made known to management by the medium of these statistical reports, carrying as much detail as possible on the trend in public tastes.

These thumb-nail sketches of a few of the phases of hotel accounting should give you some impression of its main differences from accounting for other types of businesses. The purchasing and storing of merchandise and the preparation and control of payroll have not been touched upon because they are essentially the same as in other industries. For certain details, special methods have been adopted, but more as a matter of custom than necessity.

As accountants, we may be gratified to know that the larger the hotel industry becomes, the more value it sets on the work of its auditors and cost accountants.

BLANK HOTEL
GENERAL PROFIT AND LOSS STATEMENT

	Sales	Cost of Sales	Payroll	Other Expenses	Profit
OPERATED DEPARTMENTS:					
Rooms	$100,000		$20,400	$ 9,000	$70,600
Food	69,000	$26,220)	30,525	15,355	22,900
Beverages	40,000	14,000)			
Telephone	7,700	6,000	2,000	100	(400)
Total Departments Including Expenses and Departmental Profit	$216,700	$46,220	$52,925	$24,455	$93,100
OTHER INCOME	2,400				2,400
GROSS OPERATING INCOME					$95,500
DEDUCTIONS FROM INCOME:					
Administrative and General			$ 8,091	$10,509	
Advertising and Sales Promotion				2,500	
Heat, Light and Power			3,000	8,800	
Repairs and Maintenance			3,500	8,000	
			$14,591	$29,809	44,400
	$219,100	$46,220	$67,516	$54,264	
HOUSE PROFIT					$51,100
STORE RENTALS					2,900
GROSS OPERATING PROFIT					$54,000
FIXED CHARGES:					
Real Estate and Personal Property Tax				$10,000	
Interest				12,000	
Insurance				1,000	
Depreciation				15,000	38,000
					$16,000

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